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C E N T R A L I N T E L L I G E N C E A G E N C Y

OFFICE OF NATIONAL ESTIMATES

13 March 1969

NE STAFF NOTE NO. 5-69 (ONE Distribution Only)

SUBJECT: The Iranian Oil Crisis

NOTE TO THE BOARD

Herewith are some thoughts on a currently hot issue for the information of the Board. We would not anticipate further dissemination at this time.



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CENTRAL INTELLIGENCE AGENCY  
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SUBJECT: The Iranian Oil Crisis

1. The Shah and the Consortium of Western oil companies are at loggerheads over the amount of revenue Iran should receive in the Iranian year beginning March 21. This dispute is part of the continuing controversy over the Shah's demand for a total payment of \$5.9 billion over the five-year period starting in 1968. We indicated in NIE 34-69 of 10 January 1969 that the companies were prepared to make total payments of about \$5.0 billion over this period, but that petroleum offtake figures for the coming year had not yet been agreed. We further noted that both sides would "no doubt explore numerous alternatives in involved negotiations throughout the course of the next five-years," and concluded that "we believe that in the end the Shah will accept a compromise for the five-year period."

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2. The present crisis is somewhat sharper than we had expected when we wrote NIE 34-69. In part this is because we had not recognized the extent of the breakdown of meaningful communications between the two parties. The Consortium waited until the last moment to inform the Shah that it would not completely live up to its revenue guarantees for the year ending 20 March 1969. On the other hand, the Shah had given the appearance of turning away from pressing for full achievement of his revenue demands in favor of rapid expansion of facilities necessary to permit sharp annual increases later in the five-year period. At a meeting between the Shah and representatives of the Consortium in February, however, it became apparent that the revenue issue remained the central sticking point in the negotiations. In this situation, the companies appear to have decided that they must make a particularly firm stand this year or be faced in future years with what they consider an unbridgeable gap between what the Shah is demanding and what they are willing to provide. The sharpness of the present crisis, thus, results from the suddenness of the realization of the magnitude of the differences

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still separating the two sides and from the determination of the companies to "bite the bullet" now rather than later.

3. Communications difficulties continue to plague the negotiating process. The inability of the Shah and the Consortium to narrow appreciably the \$100 million gap in revenue guarantees for the coming year has induced both sides to agree to a two-month recess in their formal talks. During this period the companies will refine their calculations somewhat and in the end will probably be prepared to offer some additional revenue, perhaps to a total of as much as \$935-945 million, instead of the \$1 billion the Shah is demanding. They are unlikely to offer more than this, and may not be willing to go this far without some understanding that the Shah's demands for ensuing years will be correspondingly pared. If the oil companies stick with their present position, however, a significant drop in oil offtake in the second quarter of 1969 is inevitable, thus adding acrimony to the negotiations.

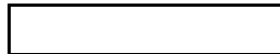
4. We continue to believe that the Shah would eventually accept an offer of about \$945 million for the coming year. He has seen the disruption caused to Iran from attempts to dispense

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with Western oil companies; we believe he has no intention of provoking another break. Moreover, there are other possible avenues to increase revenues without directly involving the Consortium. The newly formed German oil combination is interested in arranging purchases of oil from the Iranian National Oil Company. While there are difficulties inherent in any such attempts to raise substantial amounts of additional revenue, these possibilities may, as we indicated in NIE 34-69, provide sufficient revenue to permit the Shah to accept a settlement satisfactory to the Western oil companies. These alternatives will no doubt be surfaced during the negotiations which are due to resume in May. While these talks are likely to be acrimonious and stormy, we do not believe that they will end in breakdown or cause the Shah to take punitive action against the oil companies.



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MEMORANDUM FOR: *DC.*

*The attached Note was written for the Board's information some days ago. - I send it to you for a moment's reading if you wish.*

*We will go into this more thoroughly and produce a new paper in accord with your request.*

*Good - Thank you*

*24 March*  
(DATE)

FORM NO. 101 REPLACES FORM 10-101  
1 AUG 54 WHICH MAY BE USED.

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